

MARKET CONDUCT EXAMINATION
OF
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
PRUCO LIFE INSURANCE COMPANY
AS OF
FOR THE PERIOD
JANUARY 1, 2003 TO SEPTEMBER 30, 2003

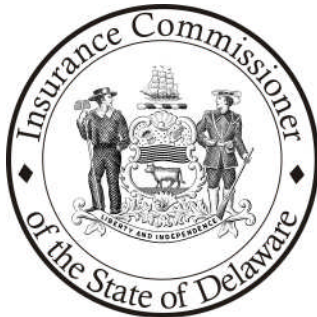
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of JANUARY 1, 2003 TO SEPTEMBER 30, 2003, of the

**THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
PRUCO LIFE INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 7 MARCH 2006



In witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 7TH DAY OF MARCH 2006.

Matthew Denn

Insurance Commissioner

REPORT ON MARKET CONDUCT EXAMINATION
OF THE
PRUDENTIAL INSURANCE COMPANY OF AMERICA
PRUCO LIFE INSURANCE COMPANY
AS OF
JANUARY 1, 2003 TO SEPTEMBER 30, 2003

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 7th day of MARCH, 2006.

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SALUTATION

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn;

In compliance with your instructions contained in Certificate of Examination Authority Numbers 03.709 and 03.710, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

**68241 THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
79227 PRUCO LIFE INSURANCE COMPANY**

hereinafter referred to as the "Company" or as "Prudential." The Prudential Insurance Company of America is incorporated under the laws of the State of New Jersey. PRUCO Life Insurance Company is incorporated under the laws of the State of Arizona. This examination reviewed only the operations of Prudential as they impact residents, policyholders, and claimants residing in the State of Delaware. The on-site phase of the examination was conducted at the following location:

751 Broad Street, Newark, NJ 07102

Examination work was also done off premises and at the offices of the Delaware Department of Insurance hereinafter referred to as the "Department" or as "DDOI."

This examination is as of February 28, 2004.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that were examined under this examination were:

- A. Company Operations/Management**
- B. Complaint Handling**
- C. Marketing and Sales**
- D. Producer Licensing**
- E. Policyholder Service**
- F. Underwriting and Rating**
- G. Claims**

Each business area has standards that the examination measured. Some standards have specific statutory guidance, others have specific company guidelines, and yet others have contractual guidelines. Please note that those standards in the NAIC Market Conduct Examiners Handbook, which do not have a Delaware Insurance Code basis, have been omitted from this examination and from the Delaware Market Conduct Examiners Handbook. The product lines reviewed in this examination were Life insurance products.

This examination was comprehensive in scope. Review of some Standards was not conducted in order to maintain an appropriate schedule for completion of the examination. Standards or tests not applied are identified in this report and were those deemed to be of minimal benefit to the overall report.

The examination did focus on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance. Most areas are nevertheless tested to see that the Company is in compliance with Delaware statutes rules and regulations.

Since this examination was the first market conduct examination of the Company, all business areas addressed by the NAIC Market Conduct Examiners Handbook and the Delaware Market Conduct Examiners Handbook that derives from it, were tested.

This examination report is a report by test rather than a report by exception. This means that all standards tested are described and results indicated.

HISTORY AND PROFILE

Prudential was incorporated in 1873 by a special act of the New Jersey Legislature as a stock life insurance company under the name of the Widows and Orphans Friendly Society. Business commenced in 1875 and in the same year, by a supplemental act of the Legislature, the Company's name was changed to The Prudential Friendly Society. In 1877, the Company name was changed to the Prudential Insurance Company of America. The changeover to a mutual company began in 1913 and did not end until 1943, when the last capital stock was repurchased by the Company. In 1975, the Pruco Life Insurance Company was created as a subsidiary of The Prudential Insurance Company of America with the purpose of conducting individual life insurance and single pay deferred annuity business in all states except New York. Pruco Life Insurance Company of New Jersey, incorporated in October 1982, is a subsidiary of the Prudential Insurance Company of America and issues a product line corresponding to that of Pruco Life Insurance Company in New York and New Jersey.

In December 2000, the Company's Board of Directors adopted a Plan of Reorganization that provided the framework under which Prudential would convert from a mutual structure to stock ownership. After receiving approval from the New Jersey Commissioner of Banking and Insurance as well as its policyholders during 2001, Prudential prepared for its Initial Public Offering (IPO). On December 18, 2001, Prudential Insurance converted from a mutual life insurance company owned by its policyholders to a stock life insurance company and became an indirect, wholly owned subsidiary of Prudential Financial.

Until September 2002, Prudential was organized into three primary business segments: insurance, asset management and securities. The insurance segment included domestic and international life insurance, group life and disability insurance and property and casualty insurance. The asset management segment included mutual funds, fixed and variable annuities, retirement services products and the management of all affiliated and non-affiliated assets.

The insurance segment manufactured and distributed protection products to retail and institutional customers both domestically and internationally as well as distributes investment products (annuities and mutual funds) primarily to retail customers in the United States. This segment's operations were conducted through the Company's U.S. Consumer Group, Institutional and International Insurance business groups.

The U.S. Consumer Group manufactured a broad range of individual life insurance and property and casualty products, and distributed these products through the Company's Retail Distribution, Prudential Select Brokerage and Prudential Securities sales channels. Producers within these sales channels also distributed retail investment products (annuities and mutual funds) and institutional products (long-term care insurance and defined contribution plans).

Retail Distribution can be described as an exclusive agent distribution system. During the exam period, the majority of these agents were common law employees of the Company, covered by a Collective Bargaining Agreement that specified their Compensation, Benefits and Working Conditions. A growing portion of these agents work under a Statutory Agents Agreement, which makes them statutory agents, under the IRS code.

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The majority of life insurance sales through Prudential Select Brokerage come through independent brokers. The appointees are individually contracted through a broker agreement with Prudential Select and by contract are considered independent contractors. While not required for appointment, these individuals are typically registered representatives of a broker-dealer who conduct variable life business with Prudential through a separate selling agreement with Pruco Securities. Sales of non registered life insurance can be made by the brokers either directly with Prudential's Operations Office in Minneapolis, or by utilizing a General Agent. All General Agents who submit business to Prudential must have an existing separate General Agent Agreement with Prudential.

Prudential Securities was an independent broker dealer whose sales were generated by financial advisors who were registered representatives with the Prudential Securities broker dealer. They were also appointed to sell Prudential or Pruco Life products and were insurance/annuity licensed. The financial advisors could also be appointed with other insurance carriers to sell their annuity products. Please note that in July 2003, Prudential Financial combined its retail brokerage business (Prudential Securities) with Wachovia Corporation's retail brokerage business to create the broker dealer Wachovia Securities, LLC based in Richmond, VA. The parent corporation of Wachovia Securities LLC is 62% owned by Wachovia Corporation and 38% owned by Prudential Financial.

In September 2002, Prudential reorganized its businesses into three operating divisions: Insurance, Investments and International Insurance and Investments. The activities in the Retail Investments business were redeployed into the Insurance and Investments areas. These changes occurred in order to create a greater alignment of our product and distribution activities in the divisions while enhancing our ability to achieve the ongoing growth and efficiency goals we have targeted.

The Insurance Division includes individual life insurance, annuities, group insurance, property & casualty insurance, retail distribution, and voluntary benefits (Working Solutions).

The Investments Division consists of the businesses of Prudential Securities, as well as the company's asset management, guaranteed products, retirement services, mutual funds and managed account products.

The International Insurance and Investments Division consists of Prudential's current International Insurance and International Investments operations.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Life and Annuity Insurer found in Chapter XV of the Delaware Market Conduct Examiners Handbook. This chapter is derived from applicable Delaware Statutes, Rules, and Regulations as referenced herein and the NAIC Market Conduct Examiners Handbook.

Some standards were measured using a single type of review, while others used a combination or all of the types of review. The types of review used in this examination fall into three general categories. The types of review are: Generic, Sample, and Electronic.

A "Generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "Sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners Handbook and the NAIC Market Conduct Examiners Handbook. For statistical purposes, an error tolerance of 7% was used for claims reviews and a 10% tolerance was used for other types of review. The sampling techniques used are based on a 95% confidence level. This means that there is a 95% confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance is not indicative of the DDOI's actual tolerance for deliberate error.

An "Electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately measure how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct Examiners Handbook for a Property and Casualty Insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the NAIC Market Conduct Examiners Handbook are stated and contained within a bold border.

Each Standard is accompanied by a "Comment" describing the purpose or reason for the Standard. A "Result" is indicated and examiner "Observations" is noted. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are kept with the appropriate Standard.

REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. While these processes vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in failure of the various Standards that follow in this section and those following. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements; and
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations..

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect management strengths and weaknesses that have a bearing on regulatory compliance issues.

In general, Prudential has well developed well written procedures that are available to affected persons on the Company intranet. Procedures generally have good management controls and measurement devices that provide sufficient useful data to timely prepare and implement corrections to their system.

Procedure 01 - Audit (Internal and External)

Standards Affected: **A1, A5, A9**

Observations: The Company has a current procedure for the audit function. This procedure is clear, readable and well organized. The procedure is compliant with applicable statutes and regulations. The Company has measurement devices in place to ensure that the procedure is efficient and effective.

Each year the Company develops an audit plan that is presented to the Audit Committee and to senior management. The audit plan is developed using a formalized risk assessment process. For each of the entities within the Company, an assessment is done of the inherent and control related risks. Risk factors included in the assessment include: control environment, product, sales and marketing practices, legal/regulatory, operations/processing, technology, credit and reporting. Once these risk levels are determined, audit resources are given first to the entities with the highest risk rating. The audit plan and risk assessments are updated throughout the year to reflect changes made to the Company's operations or changes in an entities risk profile. Entities with a high or moderate risk rating will generally be audited on an annual basis. After an audit report is completed the report is then given to management and the appropriate departments within the Company.

Recommendations: None

Procedure 02 – Anti-fraud

Standards Affected: **A3, A9**

Observations: The Examiners reviewed the Company's Fraud Prevention and Detection Procedures Manual and Special Investigation Unit Manual. In addition, a listing of training modules and the department organization chart were reviewed. The procedures are readily available to affected persons in hard copy or electronic. The current process was last updated January 23, 2002, pursuant to a request from the New Jersey Department of Banking and Insurance, Division of Anti-Fraud Compliance. The manuals are well organized and are clear, on-point and readable.

The Special Investigation Unit is a full time internal unit which is organizationally separate from Underwriting and Claims. The unit is located within a restricted area of a Prudential facility in Livingston, N.J. Limited access to this area is maintained through the use of keypad access control and is restricted to SIU members only. The vice president who supervises SIU reports organizationally to the Vice president of Risk Management, who reports to the senior Vice President of Group Insurance. There is also a functional reporting relationship between SIU and the Vice president, Investigations, Corporate Investigations Division.

SIU evaluates the plan, procedures, organization operation, training and staffing requirements on an on-going basis to keep up with ever changing fraud schemes.

Recommendations: None.

Procedure 03 - Electronic records control

Standards Affected: **A2, A6, A9**

Observations: The Examiners reviewed Company procedures for addressing Electronic Records Control, File Back-up, File Maintenance and Record Retention. These procedures are readily available to affected persons in writing or electronically via the Company's intranet system. The procedures are well organized and are clear, on-point and readable. The process is reviewed annually and was last revised on October 23, 2003. It was also noted that no changes to this process is made without the express approval from Minneapolis Server Operations.

Recommendations: None.

Procedure 04 - File backup

Standards Affected: **A2, A4, A6, A9**

Observations: The Examiners reviewed the Company File Back-up Procedure manual. The procedure is readily available to affected persons in writing or electronically via the Company's

intranet system. The procedure is well organized and are clear, on-point and readable. The process is reviewed annually and was last revised on October 23, 2003.

Recommendations: None.

Procedure 05 - File maintenance and content

Standards Affected: **A2, A6, A9**

Observations: The Examiners reviewed the Company written procedure for File Maintenance. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is well organized, clear, on-point and readable. The process is reviewed annually and was last revised on October 23, 2003.

Recommendations: None.

Procedure 06 - Record retention

Standards Affected: **A6, A9**

Observations: The Examiners reviewed the Company written procedure for Record Retention. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is well organized, clear, on-point and readable. The process is reviewed annually and was last revised on October 23, 2003.

Recommendations: None.

Procedure 07 - Computer security

Standards Affected: **A2, A9**

Observations: The Examiners reviewed the Company written procedure for Computer Security. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is organized, clear, on-point and readable.

The "Prudential Information Security Policy and Control Standards" represent the minimum set of information security requirements that Prudential will accept for the protection of Prudential information. These controls establish a foundation for information and technology security, and are a combination of technology-enforceable controls and administrative controls. The "Prudential Information Security Policy and Control Standards" are designed to protect and preserve the confidentiality, integrity, and continued availability of all information owned by, or in the care of Prudential. These "Information Security Standards" are the foundation of all of the Prudential procedures and guidelines associated with protecting Prudential information assets.

Adherence to and enforcement of the Security Controls is required for all employees and any third parties (including, but not limited to, consultants, temporary employees, vendors, etc.) who have access to Prudential information.

Recommendations: None.

Procedure 08 - Access to the IS Manual

Standards Affected: **A2, A6, A9**

Observations: This procedure manual was not tested or accessed.

Recommendations: None.

Procedure 09 - Disaster recovery

Standards Affected: **A4, A10**

Observations: The Examiners reviewed the Company procedures addressing business continuation. The procedures are in writing and are readily available to affected persons electronically via the Company's intranet system. The current process was last updated during June 2003. The manuals containing the procedures are well organized and are clear, on-point and readable. They contain clearly labeled sections and indexing to aid ease of use. The process contains appropriate testing and feedback mechanisms. Testing of these procedures in critical areas are done annually and in lower impact areas at least every 24 months. There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None.

Procedure 10 - MGA oversight

Standards Affected: **A5, A9**

Observations: The Company advised that it does not employ the services of an MGA in its production of Individual Life and Group Life lines of business in the State of Delaware.

Recommendations: None.

Procedure 11 - Policyholder privacy protection

Standards Affected: **A9, A10, A11, A12, A13, A14, A15, A16, A17**

Observations: The Examiners reviewed the Company written procedure for policyholder privacy protection and supporting documents including:

- Notices to Customers;
- Opt-out work flow descriptions;
- Customer Information Privacy and Security Program;
- Customer Information Sharing Policy;
- Amendments to Contract Language;
- Information Security Control Standards;
- Risk Assessment Template; and,
- Computer based training Program (Privacy).

The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is organized, clear, on-point and readable. The network is tested at least semiannually to determine if the system has been penetrated.

Prudential has a Corporate Privacy Office charged with managing the development, execution and coordination of Prudential's privacy strategy in consultation with business executive leadership. The Privacy Office works with Prudential's businesses to define privacy compliance and operational objectives and to develop criteria to measure performance against objectives.

Examiners noted that the notices and opt-outs utilized appear to be in compliance with the provisions of the Graham Leach Bliley Act and Delaware regulations.

Recommendations: None

Procedure 12 - Insurance information management

Standards Affected: **A2, A9, A10, A11, A12, A13, A14, A15, A16, A17**

Observations: The Examiners reviewed the Company written procedure for insurance information management. The observations here are the same as found in P-11.

The procedure appears to be in compliance with the provisions of the Graham Leach Bliley Act and Delaware regulations.

Recommendations: None.

Procedure 13 - Complaint Handling

Standards Affected: **A9, B1, B2, B3, B4, B5**

Observations: The Examiners reviewed the Company written procedure addressing Complaints. It is readily available in written and electronic versions. The current process was last up-dated in May of 2003. The manual is well organized, clear, on-point and readable.

The Company has a Company Wide Complaint Handling Quality Review Process. All business units that receive customer complaints and report customer service indicators are required to implement this Quality Review Process. The Company Wide Complaint Handling Quality Review does not replace any quality assurance efforts already in place. Each month a sample is drawn from the “client closed” cases on which a decision was made and mailed to the client. The results of these Quality Reviews are used by supervisors to administer re-training where needed or used as positive feedback for employees who score well. There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None.

Procedure 14 - Advertising, sales and marketing

Standards Affected: **A9, C1, C2, C3, C4, C5**

Observations: The Examiners reviewed the Company written procedure for Advertising, Sales and Marketing. The document is clear and readable. The last major revision took place in September of 2002. The procedure manual is organized with a table of contents to guide the reader through the manual. This manual is intended to assist the Marketing Review Unit in development of sales and marketing materials that comply with the requirements of state and federal authorities as well as the policies of the Company. The procedure is well structured and does not appear to conflict with Delaware statutes or regulations.

The Company has a Quality Review process that is conducted by a team consisting of Registered Principals and Senior Management within the unit. At the end of each quarter a random sample of marketing materials processed in that quarter is selected for review. This material is not reviewed by anyone who originally approved the material. Quality Review results, and any responsive actions taken, are recorded and maintained by the Marketing Review Unit.

Recommendations: None.

Procedure 15 – Policy Illustrations

Standards Affected: **A9, C1**

Observations: The Examiners reviewed the Company procedures for Policy Illustrations. This procedure is part of the Company Compliance Manual. The procedure is readily available to affected persons electronically via the Company’s intranet system. The manual is reviewed and changes are made on an on-going basis with the last update in June 2003. The manual is well organized, clear, on-point and readable. There are no apparent conflicts with Delaware statutes or regulations.

In order to assure that only Company produced illustrations are used during sales transactions,

the Company utilizes an electronic illustration system in which the output is “locked down” and cannot be altered. Producers can only print the applicable illustrations as the electronic “cut and paste” features have been disabled. In addition to systematically ensuring that illustrations cannot be altered by producers, the Company requires that its sales agents submit to the Underwriting Department an illustration signed by the client that matches the policy as issued. If the submitted illustration is improperly completed, does not match the policy as it will be issued or is not signed by the client, the Underwriting Department will reach out to the producer to ensure that a properly completed illustration is submitted to the Company.

In addition, the Company requires that producers maintain a copy of each illustration run and shown to a client within their client file. The Company requires that any Variable Life illustrations be included within the Company maintained policy file. The completed illustrations within the producer’s client files are subject to field office examination by the Insurance Division Compliance Department as part of its field office examination program.

During the annual field office examinations, the Compliance Department seeks to review 25% of the Detached (Branch) offices of the Parent agency subject to examination as well as 25% of private office agents. Most private office visits are completed on an unannounced basis. During these reviews, producers’ client files are subject to review and completed illustrations are examined to ensure that they meet Company requirements. There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None.

Procedure 16 – Policy Replacement

Standards Affected: **A9, C1**

Observations: The Examiners reviewed the Company written procedures for Policy Replacements. The procedure is included in the Policy Replacement Field Guide manual. The manual can be reviewed in hard copy and is readily available to affected persons electronically via the Company’s intranet system. The manual was last revised in 2002. The manual is well organized, clear, on-point and readable. It contains clearly labeled sections and indexing to aid ease of use.

The Company uses several tools and processes on an ongoing basis to ensure that all individual life replacements are monitored and handled in accordance with Company procedures as well as with various state replacement rules and regulations. The processes to measure replacement activity and ensure the proper handling of individual life replacement transactions include:

- Replacement Case Management System (RCMS) RCMS, introduced in December 1999, was originally designed to capture information necessary to generate letters to insurance companies informing them that Prudential intends to replace an existing policy with a Prudential policy. This correspondence is necessary from either a regulatory or administrative perspective, depending on the particular state guidelines. The usage of this

data has expanded to overall case management of replacement transactions by the Insurance Division and Pru Select Life New Business Replacement teams. For state requirements, the RCMS is used to monitor the receipt of required forms within required time period

- Enterprise Suitability System (ESS), originally rolled out in November 1999, automates the suitability review of new mutual fund and annuities business. As of February 2001, ESS was integrated with the existing Client Acquisition Process (CAP) workflow for variable life new business. Managing Directors at the field office level currently use ESS to provide the automatic identification of product suitability review points for mutual Funds, annuities and variable life products (including replacement/financing review). ESS provides on-line suitability approvals for variable life, annuities and mutual funds new business as well as replacement approval for variable annuities. Approximately 500-600 variable life new business cases are processed per day through the suitability rules engine.
- Business Quality System (BQ, was developed to provide a case tracking tool for Business Quality Officers. Business Quality Officers, in Fort Washington PA, review cases referred by Underwriting Case Managers when there is a discrepancy in information, high risk review points exist, or other concerns are discovered during the risk evaluation made during the Client Acquisition Process (CAP). BQ links to the Company's MNBS record administration system to recall relevant policy information. After investigation, the results of the quality review are documented in an electronic case folder which can be accessed in order to produce a variety of reports pertaining to reviewed replacement activity. BQ also provides a monthly feed to the Company's Business Quality Snapshot database (described below) for monitoring by management within the Company's field agencies. BQ handles approximately over 6700 cases per year.
- Agency Self Assessment Process and Business Quality Snapshot. The Agency Self Assessment Process and Business Quality Snapshot are a combination of reports and tools to assist the field agencies in Agency Distribution in monitoring and analyzing business quality activity (including replacement) for most core products. These reports enhance the business quality reporting in the field and are the primary system resource for trending risk-related components. The information includes summary level data as well as transaction level information for further review. The Business Quality Snapshot report is updated on a monthly basis and provides the field with a profile of business quality activity at various levels including producer, staff and agency level reporting. The report displays the current month activity, prior two months, year to date activity and the rolling 12 months. Trending and threshold indicators are provided for key measures. The assessment process is available on a quarterly basis at the agency and territory levels.
- Sales Practices Oversight and Control System (SPOCS)
- Replacement Register
- Field Office Examinations

There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None.

Procedure 17 - Producer training

Standards Affected: **A9, C2, C4, C5, C7**

Observations: The Company makes a distinction between its producer training for individual products and producer training for group products. The Company did not provide a written procedure for Producer Training, individual or group. The Company did provide substantial detail concerning Policy Replacement and Financing training for individual producers. The Company's Group Insurance Training Division designs, develops and delivers training for Group Life associates using web-based, virtual, classroom and teleconference platforms. Examiners reviewed training materials, course outlines and other related information. None of the materials reviewed conflict with statute.

Recommendations: None.

Procedure 18 - Producer selection and appointment

Standards Affected: **A9, D2, D4, D5, D6**

Observations: The Examiners reviewed two procedures related to Producer Selection and Appointment. These were the Standard Operating Procedures of the New York Licensing Renewal Unit – Insurance Operations and the Compliance Policies and Procedures Manual-LRU. These procedures are readily available in written and electronic versions. The various procedures within the manual have different original effective dates, but all were revised in 2003 and are scheduled for review in 2004. The manuals are well organized, clear, on-point and readable. Quality review reports are sent to management on a monthly basis. There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None.

Procedure 19 - Producer defalcation

Standards Affected: **A3, A9, D2, D4, D5, D6**

Observations: The Examiners reviewed the Company written procedure on producer defalcation that is contained within the Compliance Policies Manual. The manual provides that Prudential does not allow field offices nor sales professionals to accept cash deposits or payments. All payments are made direct to the Company. The manual is available to affected persons in written and electronic versions. It has a detailed table of contents for quick reference, is well organized, on-point and readable. The current manual was revised in 2003.

Recommendations: None.

Procedure 20 - Policyholder Service

Standards Affected: **A9, E1, E2, E3, E6, E9, E10, E11, F2, F3, F4, F9**

Observations: The Examiners reviewed a number of Company procedures related to Policyholder Services. All procedures reviewed were organized, clear, on point and readable. Each has a quality review feature as part of the procedure. Each is available to affected persons in hard copy and electronic form via the Company intranet.

Prudential has never made an assumption reinsurance transfer and does not have a formal written procedure for such a transaction.

Policyholder Service procedures for Individual Life reviewed include

- Remittance Rules and Procedures Database
- Disbursement Rules and Procedures.
- Customer Correspondence.
- Calculation procedures
- Remittance Rules & procedures database.

Staff Training for policyholder service components is maintained within the appropriate procedures manual. Existing quality procedures are validated on an annual basis by the Quality Control Group and the Division Manager.

Policyholder Service procedures for Group Life reviewed include

Mailing of premium and billing notices.

Reinstatement requests.

Policy issuance procedures.

Insured requested cancellations

Customer Call Handling.

Communication of non-forfeiture options to policyholders.

Calculation and return of any unearned premiums.

The procedures appear to be compliant with Delaware statutes and regulations.

Recommendations: None

Procedure 21 - Premium billing

Standards Affected: **A9, E1, E4**

Observations: The Examiners reviewed the Company written Premium Billing procedure. The procedure is available on both written & electronic media. The written procedures are clear and readable. The Company maintains a separate billing process for its individual life insurance business and for its group life insurance business. An internal review of the premium billing systems is made annually and the last review was made on June 1, 2003. If at any time a

premium billing discrepancy is noted, it is immediately provided to the Billing Coordinator for resolution.

After its last review, the Company became involved in a conversion initiative to consolidate the multiple billing systems to one platform. The completion of this conversion will be made within the first six months of 2004. The effect of this conversion will ensure that all Premium Billings to the insured's will be processed, monitored and mailed in a timely manner by the Company's Operations Readiness Team.

No apparent conflict with the Delaware statutes and regulations were noted.

Recommendations: None

Procedure 22 - Policy issuance

Standards Affected: **A9, E2, F9**

Observations: The Examiners reviewed the Company written Policy Issuance Procedure. The manual containing the procedure is clear and readable. The latest edition of the manual is dated September 2003 and is revised as needed.

The manual is well organized. It is a complete guide to all areas of Policy Issuance from logging on the system to completion. The procedure is well structured and does not appear to conflict with Delaware statutes or regulations.

The Company implemented a Quality Assurance (QA) procedure in 2001 and revised it in September, 2003. The procedure insures that all new issues are accurate and error free when released. Quality Assurance reviewers are chosen on a monthly basis from a pool of experienced senior associates. Backups will also be available in case of absence or high volume. If a drafter does not agree with the assessment of the reviewer the drafter can appeal to the QA coordinator. The Issue Process Team Director makes the final decision on disputed assessments.

Recommendations: None.

Procedure 23 – Underwriting and Selection

Standards Affected: **A9, E6, F1-F13**

Observations: The Examiners reviewed the Company written procedure for Underwriting and Selection. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is organized, clear, on-point and readable.

Individual Life Underwriting Guidelines are documented in the Life Underwriting Guide (LUG) and the Medical Underwriting Manual (MUM). LUG provides guidance on non-medical

underwriting issues such as Financial Underwriting, and Client Correspondence, including adverse underwriting action guidelines. MUM is specific to medical underwriting and covers physical impairments likely to be encountered during the underwriting process.

Group Life underwriting and selection procedures are comprehensive and reasonably detailed.

There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None

Procedure 24 - Rating

Standards Affected: **A9, F1**

Observations: The Examiners reviewed a number of documents and manuals comprising components of the Company's written rate calculation procedure including:

- 1) Product Manual Information relating to Underwriting and Group Life Products
- 2) PruValue manuals over the exam period
- 3) Listing and copies of Underwriting memoranda
- 4) Case Information and Tracking System Manual
- 5) Workstation Manual
- 6) QR Review Forms and Procedures
- 7) Group Insurance Life Rate Manual
- 8) Facts of Life and Disability
- 9) SPARC Manual

The procedures are maintained both electronically and in hard copy and are readily available to affected persons. They are clear, readable and organized. The quality review process for these procedures is conducted on a quarterly basis.

New proposals for groups over 500 lives are submitted by the Sales force to the Workflow coordinator. The Workflow Coordinator reviews the submitted information and evaluates whether or not to assign the proposal to an Underwriter for completion.

The Underwriter examines the characteristics of the group (whether or not it is a viable organization with the ability to pay premiums and/or fees and an allowable group), the group's plan and analyzes the supporting data (experience, booklets, etc.) to prepare a quote. If the Underwriter determines that a quote cannot be developed, the Underwriter may decline to offer a quote and will communicate this to the appropriate parties.

New proposals for most groups under 500 lives are submitted by the Sales force to the RateCalc unit. The RateCalc Workflow coordinator assigns the proposals to RateCalc Technicians. The RateCalc Technicians input the census and plan design features into the SPARC electronic administration system. If the Standard Industrial Code (SIC) and/or plan designs meet the programmed criteria (established by Underwriting) in the system, a quote will be generated. If

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the SIC or plan designs are outside of the programmed criteria, a quote will not be released, unless reviewed by Underwriting. If referred to Underwriting, then Underwriting follows the process described for groups over 500 lives. These plans and selection guidelines developed by Underwriting, are known internally as PANs (preferred, acceptable and “non-standard or no quote”).

Once an offer is accepted the Underwriters are responsible for preparing paper and electronic records, and for cases installed in the Electronic Issue Brief system, assuming risk on the electronic case record. Assumption of risk includes confirming plan designs, rates and establishing case structure.

For cases under 500 lives installed on the SPARC system, the Underwriter is only involved with the installation in situations where there is a discrepancy between what was quoted and what the client believes they have purchased. In such situations the Underwriter works with client management, the broker and the client to determine what was actually desired and will adjust rates and plan designs as necessary. For cases under 500 lives, if there are no discrepancies at installation, the case will be issued “automatically” by the system.

The in-force Underwriter on a case is responsible to responding to inquiries from any functional area that relate to the financial aspects of the case. Underwriters are responsible for reviewing the financial performance on cases. For participating cases the review is more frequent than for non-participating cases, as the participating cases are reviewed quarterly and in some cases monthly.

For non-participating cases, the financial review most often occurs when the case is being evaluated for renewal. The Underwriter reviews the plan features, the premium and the benefit charges. Based on this review, the Underwriter will prepare a decision communicating any changes to the plan or rates to the Account Manager, who will communicate with the client.

The company utilizes a pre-release process to assure adherence to the applicable policies and procedures. Financial Underwriting performs quarterly quality reviews of work in the area. The quality review process measures: documentation, accuracy of calculations, timeliness of responses and adherence to policies and procedures. Senior Underwriters, Underwriting Specialists, Lead Specialist Underwriters and Directors are all involved in the measurement process.

With respect to rate filing, Prudential’s group life rates do not require filing in Delaware. However, for coverages where rates are filed, Underwriters are trained to produce rates in accordance with the filing.

With respect to Individual Life the Introduction Section of the Medical Underwriting Manual describes the Individual Life guidelines on rating class.

These procedures appear to be compliant with Delaware statutes and regulations.

Recommendations: None

Procedure 25 - Disclosures

Standards Affected: **A9-A17, C6, C8, C9, E6, E8, E10-E11, F2-F4, F14**

Observations: The Examiners reviewed the Company written procedure for Disclosures. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is organized, clear, on-point and readable.

Assumption reinsurance, non-forfeiture options and unearned premiums are discussed in P-20 and P-36.

Examiners reviewed procedures detailing reasonable attempts to locate missing policyholders or beneficiaries for Individual Life. Quality Review procedures related to Disclosure functions were reviewed as was the Prudential Unclaimed Funds System .

Group Life does not maintain any documented procedure regarding the production and distribution of illustrations. Examiners noted that the only group product affected was the Company's Group Variable Universal Life (GVUL) product. The Group Actuarial Department is responsible for the production of GVUL illustrations and the Group Operations Department is responsible for the distribution of illustrations. GVUL illustrations are provided on an as requested basis. These requests are documented by the Group Insurance Call Center and are monitored until the request is fulfilled.

The Company has addressed specific Delaware requirements for AIDS-related concerns.

These procedures appear to be compliant with Delaware statutes and regulations.

Recommendations: None.

Procedure 26 - Underwriter training

Standards Affected: **A9, F1, F2, F3, F4, F5, F6, F7, F8**

Observations: The Examiners reviewed the Company written underwriter training procedures for individual life underwriters and for group life underwriters. The procedures are maintained both electronically and in hard copy and are readily available to affected persons. They are clear, readable and in a format that is easy to follow. The quality review process for these procedures is conducted on a quarterly basis.

With respect to Individual Life underwriting training, Prudential provides training on a one-on-one basis for new hires utilizing the Medical Underwriting Manual and Life Underwriting Guide. In addition, training classes are provided 6 to 8 times a year to all underwriters regarding medical issues provided by the Company's medical doctors. Classroom training is also offered as topical

subjects arise such as procedural or regulatory changes as they occur and product classes such as Buy Sell concepts as they relate to underwriting. Weekly team meetings held provides the opportunity to discuss cases and to share information as well as the utilization of internal memos.

With respect to Group Life, underwriters are trained by a variety of methods: classroom, computer based training modules, underwriting memos and team meetings. For classroom training and team meeting training, subject matter experts present the topic. Classroom training includes in class mastery checks and periodic quizzes, followed by a final exam. Underwriting memos are written by subject matter experts and when the topic is broad enough, are the result of coordinated cross functional reviews of the topic at hand.

These procedures appear to be compliant with Delaware statutes and regulations.

Recommendations: None.

Procedure 27 - Cancellation

Standards Affected: **A5, A9, E9, F10**

Observations: The Examiners reviewed the Company written procedures for policy cancellation, which include policy lapses, term expiration, full cash surrender and non-renewal. These procedures apply to all of the Individual Life and Group Life Insurance Business. All of the procedures reviewed were clear and readable.

Each life insurance policy contains a “Right to Cancel” contract provision allowing the policy owner to return a new policy within a specified period of time. The provision is also applicable on policies issued as a result of attained age change, increases in face amount and term conversions or term change. The policy-owner is given the option of canceling the new policy under the “Right to Cancel” contract provision. All the cancellation notices to insured’s are mailed in a timely manner along with a full return of premiums due, where applicable.

A review of the company’s procedures is made annually and any necessary revisions are made to maintain the Company standards. The Company procedures show no apparent conflict with Delaware statutes.

Recommendations: None

Procedure 28 - Termination

Standards Affected: **A5, A9, E9, F10, F11**

Observations: The Examiners reviewed the Company written termination procedure & guideline manual. The procedure is clear and readable. It is available to affected persons in hardcopy or electronic form. The procedure is reviewed on a annual basis. The procedures and guidelines

apply to all associates in the underwriting department which includes the monitoring of policyholder activities with regards to Policy Lapse, Reinstatement, Cancellation, Termination and Billing. Monitored cases are reported to the Quality Review Coordinator who creates a case file terminated case. Based on the monitoring reports, the Quality Review Coordinator initiates necessary changes and revisions to the procedure. No apparent conflicts with Delaware statutes or regulations were noted.

Recommendations: None

Procedure 29 - Declination

Standards Affected: **A5, A9, F10**

Observations: The Examiners reviewed the Company written procedure for Declination. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is organized, clear, on-point and readable. Also see discussion in P-23.

In regards to Group Life, an underwriter may determine, after analyzing a new prospect, not to make an offer for insurance. In such situations, the underwriter is required to provide written documentation to the sales person and to appropriately update the underwriting file and the electronic proposal tracking system.

There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None

Procedure 30 - Rescission

Standards Affected: **A9, F12**

Observations: The Examiners reviewed the Company written procedure for Rescission. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is organized, clear, on-point and readable.

Group Life coverage may be rescinded based on language contained within the contract. If the Company invokes the right to rescind a contract based on "Failure to Maintain Insuring Conditions" or at "Contract Anniversary," the account management or sales associates would communicate this change with advance notice to the client.

These procedures appear to be compliant with Delaware statutes and regulations.

Recommendations: None

Procedure 31 – Staff Training

Standards Affected: **A9, A10, A11, F1-F15**

Observations: The procedures for Staff Training are contained within procedure manuals for Producer Training, Policyholder Service, Policyholder Disclosures, Underwriter Training, Adjuster training, Producer Selection and Appointment and other applicable compliance training materials.

Recommendations: None.

Procedure 32 – Adjuster Training

Standards Affected: **A9, G1-G13**

Observations: The Examiners reviewed the Company written procedures for Individual Life and Group Life Claim Processor Training. The procedures are clear, easy to read and well organized.

Procedures for Individual Life Adjuster Training are maintained electronically in the Quality Toolbox Database on the company's intranet system.

Procedures for Group Life Claims Examiners Training is located partially on paper and partially in electronic form. Most procedures are in the form of a series of guidelines contained in hardcopy binders. Current changes are maintained in an electronic database. Training is focused on both sources of information. Every new examiner goes through 2-3 weeks of classroom training. After classroom training, the examiner is assigned to a coach. All claims are referred to the coach for review until the examiner meets the requirements for reduced supervision.

Any changes that affect claim handling are communicated to staff via e-mail and training is also provided to staff when necessary. The Group Life Claim Division monitors and measures the dedicated 800 line call center service level, abandon rate, and call volume. This division also measures claim turn around time, financial accuracy, claim volume, and total claims processed/denied. The results are reported to senior management on a monthly basis.

Quality review procedures are included within the database as attachments entitled "Quality Review" dated June 12, 2002 and "Quality Review Revalidation" dated May 7, 2003. These are the most current versions and are updated annually or as needed.

The procedures appear to be compliant with Delaware statutes and regulations.

Recommendations: None.

Procedure 33 – Claim Handling

Standards Affected: **A9, G1-G13**

Observations: The Examiners reviewed the Company written procedure for Claim Handling. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is well organized, clear, on-point and readable. The process is reviewed annually and was last revised on May 7, 2003.

Procedures for Individual Life and Individual Life's internal claim audit procedure are maintained electronically in the Quality Toolbox Database on the company's intranet system.

The Company's Group Life claims handling procedures are maintained in paper binders referred to as the "Group Life Claim Reference Guide." Current changes to life claim handling procedures are maintained electronically in the "Group Life Claim Memorandum Database." The "Group Life Reference Guide" and the "Group Life Claim Memorandum Database" cover categories that would apply to processing of Group Life claims, this includes any state or federal statutes that would apply to Group Life claims.

Any changes that affect claim handling are communicated to staff via e-mail. The Group Life Claim Division monitors and measures the dedicated 800 line call center service level, abandon rate, and call volume. This division also measures claim turn around time, financial accuracy, claim volume, and total claims processed/denied. The results are reported to senior management on a monthly basis. The "Group Life Claim Reference Guide" and the "Life Claim Memorandum Database" include but are not limited to the following information:

- Claim guidelines on how to handle various claim situations (i.e. estates, minor beneficiaries, missing beneficiary, trust, claim judgments, tax notice and interest reporting, Form 712, non-resident alien, denial handling, ERISA, unfair claim settlement practices, return checks, catastrophic accident reporting, unclaimed equities)
- Claim guidelines on how to handle more complex type of Group Life claims (i.e. accidental death and dismemberment, simultaneous death of insured and beneficiary, beneficiary involvement, adverse claimants, overpayments, contestability, disclaimers, the missing insured, litigation)
- Claim guidelines on how to handle living benefit option claims
- State tax notice requirements and state interest requirements
- State small estate statutes
- State laws for payments to minors
- HIPAA privacy standards
- Federal income tax back-up withholding
- Federal withholding for non-resident aliens

Quality review procedures with respect to Group Life claims handling are included within the Life Claim Memorandum Database as attachments entitled "Quality Review" dated June 12, 2002 and "Quality Review Revalidation" dated May 7, 2003. These are updated annually or as needed.

The procedures appear to be compliant with Delaware statutes and regulations.

Recommendations: None.

Procedure 34 – Internal claim audit

Standards Affected: **A9, G1-G13**

Observations: The Examiners reviewed the Company written procedure for internal claim audit. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is organized, clear, on-point and readable. The process is reviewed annually and was last revised on May 7, 2003.

Procedures for Individual Life and Individual Life's internal claim audit procedure are maintained electronically in the Quality Toolbox Database on the company's intranet system.

The Group Life Claim Division monitors and measures; the dedicated 800 line call center service level, abandon rate, and call volume. This division also measures claim turn around time, financial accuracy, claim volume, and total claims processed/denied. The results are reported to senior management on a monthly basis.

Quality review procedures with respect to Group Life claims handling are included within the Life Claim Memorandum Database as attachments entitled "Quality Review" dated June 12, 2002 and "Quality Review Revalidation" dated May 7, 2003. These are updated annually or as needed.

The procedures appear to be compliant with Delaware statutes and regulations.

Recommendations: None.

Procedure 35 – Vendor oversight and control

Standards Affected: **A5, A9**

Observations: The Examiners reviewed the Company written procedure for vendor oversight and control. The procedure is readily available to affected persons in writing or electronically via the Company's intranet system. The procedure is organized, clear, on-point and readable.

Each vendor contract for Individual Life products is subject to a Vendor Governance Model. The Statement of Work within the contract outlines the vendor's responsibilities and each vendor relationship includes an oversight executive who is accountable for results. Additionally, performance is monitored by periodic, structured visitations of the vendor.

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With respect to Group Life, during the time frame of this market conduct examination (1/1/01 – 9/30/03) Group Insurance (GI) did not have documented Third Party Administrator (TPA) or General Agent (GA) procedures. Oversight and control activities consisted of ad hoc audits and due diligence reviews performed by functional areas such as Tax, Underwriting, and Premium Accounting. Guidance for these reviews was provided by applicable IRS regulations, internal underwriting memos and guidelines, generally accepted accounting principles (GAAP) and statutory regulations.

During the fall of 2002 a project was initiated to create a TPA selection and management policy and procedure. Research and analysis was conducted throughout early 2003 to define and identify the key elements of a formal process to ensure that the carrier related functions that Group Insurance outsources are conducted by highly competent and compliant entities that fulfill Company responsibility to its clients, policyholders and applicable regulatory agencies.

In the fall of 2003 a Group Insurance- TPA selection and management policy and procedure was promulgated. Shortly thereafter a formal program was initiated to enforce this policy. Staffing of a unit to implement and maintain this program is presently underway.

All Company relationships with all General Agents have been discontinued as of November 1, 2003.

These procedures appear to be compliant with Delaware statutes and regulations.

Recommendations: None.

Procedure 36 – Non-forfeiture values

Standards Affected: **A9, E6**

Observations: The Examiners reviewed the Company procedures addressing non-forfeiture values. The procedures are in writing and are readily available to affected persons electronically via the Company's intranet system. The current process was last updated during October 2003. The manuals containing the procedures are organized, clear, on-point and readable.

With regard to the Group Universal Life ("GUL") and Group Variable Universal Life ("GVUL") policies, although the options vary by contract, the majority of the clients provide participants with the ability to only reinstate upon lapse (as described in the certificate). A few clients offer participants the opportunity to purchase paid-up insurance at lapse (over specified dollar thresholds).

Participants who voluntarily terminate are provided with a termination package that describes the options available to them under the plan. These options include converting their group insurance to an individual life policy, continuing their coverage on a direct-billed basis, purchasing paid-up insurance or requesting a cash surrender.

The process for lapse is automated within the administrative system. Participants are provided with notification of both overdue and lapse status. Management is provided with copies of each of these letters that are maintained on a web server, and also reviews these notices for reasonability prior to release/mailing.

Upon the lapse of a participant whose contract allows for the purchase of paid-up insurance, the premium accounting area provides notification to the operations unit and requests confirmation of the option to be effected (i.e., purchase paid up or disburse remaining funds to participant). Premium accounting then verifies that the appropriate transactions have been processed.

An independent Quality Review team monitors the reinstatement process. The results are provided to management on a monthly basis.

There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None

Procedure 37 – Cash Surrender Values

Standards Affected: **A9, E6**

Observations: The Examiners reviewed the Company procedures addressing cash surrender values. The procedures are in writing and are readily available to affected persons electronically via the Company's intranet system. The manuals containing the procedures are organized, clear, on-point and readable. See discussion for P-20 and P-36.

There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None

Procedure 38 – Depository Institution Disclosure

Standards Affected: **A9, C10**

Observations: The Company has no procedure manual for Depository Institutional Disclosure, however they are currently developing a procedure which may be ready within a very short time frame.

Prudential includes a disclosure page within the policy if the sale is in any way affiliated with a banking institution. The disclosure notice is found on the second page of the illustration used in the event of a bank sale. The disclosure identifies the insurer and discloses that the contract illustrated is:

- Not FDIC insured
- Not a bank deposit
- May lose value

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- Not guaranteed by a bank
- Not an obligation of a bank
- Not a term or condition to any banking service or activity.

The premium volume associated with such bank business is approximately 1/10 of 1% as compared to total new business volume.

Recommendations: None.

A. COMPANY OPERATIONS/MANAGEMENT

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to provide a view of what the company is and how it operates. It is typically not based on sampling techniques. It is more concerned with structure. This review is not intended to duplicate financial examination review but is important in establishing an understanding of the examinee. Many troubled companies have become so because management has not been structured to adequately recognize and address the problems that can arise.

Standard A-01

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard I.

The Company has an up-to-date, valid internal, or external audit program.

18 Del. C. §318(a) & §508(b)

Comments: The review methodology for this standard is by “generic” review. This standard does not have a direct statutory requirement. A company that has no internal audit function lacks the ready means to detect structural problems until after problems have occurred. A valid internal or external audit function and its use is a key indicator of competency of management which the commissioner may consider in the review of an insurer.

Results: **Pass**

Observations: The Company has an up-to-date, valid internal audit function. Each year the Company develops an audit plan that is presented to the Audit Committee and to senior management. The audit plan is developed using a formalized risk assessment process. For each of the entities within the Company, an assessment is done of the inherent and control related risks. Risk factors included in the assessment include: control environment, product, sales and marketing practices, legal/regulatory, operations/processing, technology, credit and reporting. Once these risk levels are determined, audit resources are given first to the entities with the highest risk rating. The audit plan and risk assessments are updated throughout the year to reflect changes made to the Company’s operations or changes in an entities risk profile. Entities with a high or moderate risk rating will generally be audited on an annual basis. After an audit

report is completed the report is then given to management and the appropriate departments within the Company.

Recommendations: None

Standard A-02

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 2.

The Company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

18 Del. C. §318(a) & §508(b)

Comments: Review methodology for this standard is by “generic” review. This standard does not have a direct statutory requirement; however the standard is inferred by the referenced statutes. Appropriate safeguards for protecting the integrity of the computer information are a public protection issue. Appropriate controls, safeguards and procedures for protecting the integrity of computer files is an indicator of competency of management that the commissioner may consider in the review of an insurer.

Results: **Pass**

Observations: The “Prudential Information Security Policy and Control Standards” represent the minimum set of information security requirements that Prudential will accept for the protection of Prudential information. These controls establish a foundation for information and technology security, and are a combination of technology-enforceable controls and administrative controls. The “Prudential Information Security Policy and Control Standards” are designed to protect and preserve the confidentiality, integrity, and continued availability of all information owned by, or in the care of Prudential. These “Information Security Standards” are the foundation of all of the Prudential procedures and guidelines associated with protecting Prudential information assets. Adherence to and enforcement of the Security Controls is required for all employees and any third parties (including, but not limited to, consultants, temporary employees, vendors, etc.) who have access to Prudential information.

Recommendations: None

Standard A-03

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 3.

The Company has an antifraud plan in place.

18 Del. C. §318(a) & §508(b) & §2408

Comment: Review methodology for this standard is by “generic” review. This standard does not have a direct statutory requirement; however the standard is inferred by the referenced statutes. Written procedural manuals or guides and antifraud plans should provide sufficient detail to enable employees to perform their functions in accordance with the goals and direction of management. Appropriate antifraud activity is important for asset protection as well as

policyholder protection and is an indicator of competency of management which the commissioner may consider in the review of an insurer. Further, the insurer has an affirmative responsibility to report fraudulent activities of which it becomes aware.

Results: Pass

Observations: The Company has established a Special Investigation Unit which is a full time internal unit which is organizationally separate from Underwriting and Claims. The unit is located within a restricted area of a Prudential facility in Livingston, N.J. Limited access to this area is maintained through the use of keypad access control and is restricted to SIU members only. The vice president who supervises SIU reports organizationally to the Vice president of Risk Management, who reports to the senior Vice President of Group Insurance. There is also a functional reporting relationship between SIU and the Vice president, Investigations, Corporate Investigations Division.

Recommendations: None

Standard A-04

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 4.

The Company has a valid disaster recovery plan.

18 Del. C. §318(a) & §508(b)

Comments: Review methodology for this standard is by “generic” review. This standard does not have a direct statutory requirement; however the standard is inferred by the referenced statutes. It is essential that the company have a formalized disaster recovery plan that will detail procedures for continuing operations in the event of any type of disaster. Appropriate disaster recovery planning is an indicator of competency of management which the Commissioner may consider in the review of an insurer

Results: Pass

Observations: The Company has a valid disaster recovery plan. The plan is in writing and is readily available to affected persons electronically via the Company’s intranet system. The current plan was last updated during June 2003. The manuals containing the procedures are well organized and are clear, on-point and readable. They contain clearly labeled sections and indexing to aid ease of use. The process contains appropriate testing and feedback mechanisms. Testing of these procedures in critical areas are done annually and in lower impact areas at least every 24 months. There are no apparent conflicts with Delaware statutes or regulations.

Recommendations: None

Standard A-05

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 5.

The Company is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the Company.

18 Del. C. §318(a), §508(b), §1805.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is focused on the level of the oversight provided by the Company when it contracts with an external entity that assumes a business function of the Company. The particular interest is on oversight impacting records and actions considered in a market conduct examination such as but not limited to, trade practices, claim practices, policy selection and issuance, rating, complaint handling, etc.

Results: N/A

Observations: The Company did not contract with any entity to assume any type of business function during the exam period.

Recommendations: None

Standard A-06

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 6.

Records are adequate, accessible, consistent and orderly and comply with Delaware record retention requirements.

18 Del. C. §318(a), §508(b).

Comments: Review methodology for this standard is by “generic” review. This standard does not have a direct statutory requirement; however the standard is inferred by the referenced statutes. This standard is intended to assure that an adequate and accessible record exists of the company’s transactions. The focus is on the records and actions considered in a market conduct examination such as but not limited to, trade practices, claim practices, policy selection and issuance, rating, complaint handling, etc. Inadequate, disorderly, inconsistent, and inaccessible records can lead to inappropriate handling of claims, inappropriate rates and other issues which can provide harm to the public.

Results: **Pass**

Observations: Records are adequate, accessible, consistent and orderly and comply with Delaware record retention requirements.

Recommendations: None

Standard A-07

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 7.

The Company is licensed for the lines of business that are being written.

18 Del. C. §318(a), §505(b), §508(b).

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to assure that the Company operations are in conformance with the Company’s certificate of authority.

Results: **Pass**

Observations: The Company is licensed for the lines of business that are being written.

Recommendations: None

Standard A-08

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 8.

The Company files all certifications with the Department of Insurance as required by statutes, rules, and regulations.

18 Del. C. §318(a) & §508(b)

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement.

Results: **Pass**

Observations: The Company has files all certifications with the Delaware Department of Insurance as required by statutes rules and regulations.

Recommendations: None

Standard A-09

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 9.

The Company cooperates on a timely basis with examiners performing the examinations.

18 Del. C. §318(a), §320(c), §508(b), §520(b)3.

Comment: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is aimed at assuring that the company is cooperating with the state in the completion of an open and cogent review of the company’s operations in Delaware. Cooperation with examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and minimizing cost.

Results: **Pass**

Observations: Cooperation was generally very good. Some delays were experienced due to the systems used by the Company. The systems work fine for identifying, locating and producing information on a single file but have difficulty with bulk production needed in the retrieval of a sample of files needed for review in a market conduct examination.

Recommendations: None

Standard A-10

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 10.

The Company has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions to minimize any improper intrusion into the privacy of applicants and policyholders.

Comments: This standard has not been tested. Issues that are of a concern under this standard are tested under Standards A-12, A-13, A-14, A-15 and A-17.

Results: **Not Tested**

Observations: None.

Recommendations: None.

Standard A-11

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 11.

The company had developed and implemented written policies, standards and procedures for the management of insurance information.

Comments: This standard has not been tested. Issues that are of a concern under this standard are tested under Standards A-12, A-13, A-14, A-15 and A-17.

Results: **Not Tested**

Observations: None.

Recommendations: None.

Standard A-12

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 12.

The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

18 Del. C. §318(a); 18 Del. C. §508(b); 18 Del. C. §535; 18 DE Reg. 904.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to assure that the Company has appropriate procedures in place to protect the privacy of applicants and policyholders.

Results: **Pass.**

Observations: Prudential has privacy protection policy and procedures for information it holds concerning their policyholders that is adequate and appropriate. See P-11 and P-12. No exceptions were noted.

Recommendations: None.

Standard A-13

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 13.

The company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

18 Del. C. §318(a); 18 Del. C. §508(b); 18 Del. C. §535; 18 DE Reg. 904.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection for information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: **Pass.**

Observations: The company provides privacy notices to its customers and to its consumers who are not customers regarding treatment of nonpublic personal financial information. See P-11 and P-12. No exceptions were noted.

Recommendations: None.

Standard A-14

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 14.

If the company discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.

18 Del. C. §318(a); 18 Del. C. §508(b); 18 Del. C. §535; 18 DE Reg. 904

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement.

Results: **Pass.**

Observations: Prudential has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers. See P-11 and P-12. No exceptions were noted.

Recommendations: None.

Standard A-15

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 15.

The company’s collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.

18 Del. C. §318(a) & §508(b)

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement.

Results: **Pass.**

Observations: Prudential’s collection, use and disclosure of nonpublic personal financial information are in compliance with the state of Delaware’s applicable statutes, rules and regulations. See P-11 and P-12.

Recommendations: None.

Standard A-16

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 16.

The Company has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

Comments: This standard has not been tested.

Results: **Not Tested**

Observations: None.

Recommendations: None.

Standard A-17

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 17.

Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

18 Del. C. §318(a) & §508(b)

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement.

Results: **Pass.**

Observations: Prudential has comprehensive written information security program for the protection of nonpublic customer information. See P-11 and P-12. No exceptions were noted.

Recommendations: None.

B. COMPLAINTS/GRIEVANCES

Comments: Evaluation of the Standards in this business area is based on Company response to various information requests (IR items) and complaint files at the Company. In this business area, "complaints" includes "grievances." 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware definition of a complaint is: "...any written communication primarily expressing a grievance."

Standard B-01

NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 1.

All complaints or grievances are recorded in the required format on the company complaint register.

18 Del. C. §2304(17); Del. Reg. 25§2(7).

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is concerned with whether the Company keeps formal track of complaints or grievances as required by statute. An insurer is required to maintain a complete record of all the complaints received. The record must indicate the total number of complaints since the last examination, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.

Results: **Pass.**

Observations: The Company maintains a complete record of all complaints as required by Delaware statutes, Rules and Regulations. No exceptions were noted.

Recommendations: None

Standard B-02

NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 2.

The company has adequate complaint/grievance handling procedures in place and communicates such procedures to policyholders.

18 Del. C. §318(a), §508(b), §2304(17).

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance requirement. This standard is concerned with whether the company has an adequate complaint handling procedure and whether the company communicates complaint handling procedures to its members or policyholders.

Results: **Pass.**

Observation: A random sample of complaint files was reviewed from the complaint logs for 2001 - 2003. The review tested the adequacy of information provided to the complainant.

| Type | Complaint Sample Results | | | | |
|----------------------|--------------------------|------|------|----|--------|
| | Sampled | Pass | Fail | NA | % Pass |
| 2001-2003 Complaints | 30 | 30 | 0 | 0 | 100% |

Recommendations: None.

Standard B-03

NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 3.

The Company takes adequate steps to finalize and dispose of the complaint/grievance in accordance with applicable statutes, rules and regulations, and contract language.

18 Del. C. §318(a), §508(b), §2304(17).

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard does not have a direct insurance statutory requirement, however reasonable disposition is inferred by the fact that disposition information is required to be noted in the complaint log. This standard is concerned with whether the Company deals with the subject matter in a complaint/grievance.

Results: **Pass, but needs improvement.**

Observation: A random sample of complaint files was reviewed from the complaint logs for 2001 - 2003. The review tested the quality of the handling of the subject matter in the complaint and whether issues raised were fully addressed by responses.

| Type | Sampled | Pass | Fail | NA | % Pass |
|--------------------|---------|------|------|----|--------|
| 2001-03 Complaints | 30 | 28 | 2 | 0 | 93.3% |

The 2 files noted as failing this Standard contain unsubstantiated allegations of inappropriate agent representations. The Company needs to intensify its review when such allegations are made.

Recommendations: It is recommended that the Company take adequate steps to see that all issues arising in a complaint are fully addressed.

Standard B-04

NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 4.

The time frame within which the company responds to complaints/grievances is in accordance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(17).

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard does not have a direct insurance statutory requirement, however timeliness is inferred. In the case of complaints/grievances concerning claims, direct time requirements are found in regulation. This standard is concerned with whether the company has a timely response to complaints/grievances.

Delaware’s complaint handling section uses a 15 day standard for response to complaints.

Results: **Pass.**

Observations: A random sample of complaint files was reviewed from the complaint logs for 2001 and 2003. The review tested the timing of the initial response to written complaints.

| Table B4-1 | | Complaint Sample Results | | | |
|----------------------|----------------|---------------------------------|-------------|-----------|---------------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| 2001-2003 Complaints | 30 | 30 | 0 | 0 | 100% |

Recommendations: None.

Standard B-05

NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 4.

Documentation of complaints is adequate and in accordance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(17).

Comments Review methodology for this standard is by “generic” and “sample” review. This standard does not have a direct insurance statutory requirement, however documentation is inferred. This standard is concerned with whether the company has adequate documentation to demonstrate handling and disposition of the complaint.

Results: **Pass.**

Observations: A random sample of complaint files from the complaint logs for 2001 and 2003 were requested for review by the examiners. The concerns tested with this Standard are:

- That the documentation of the complaint file is sufficient to demonstrate that there was appropriate disposition of the complaint.

| Table B5-1 | | Complaint Sample Results | | | |
|----------------------|----------------|---------------------------------|-------------|-----------|---------------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| 2001-2003 Complaints | 30 | 30 | 0 | 0 | 100% |

Recommendations: None.

C. MARKETING AND SALES

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to evaluate the representations made by the Company about its product(s). It is not typically based on sampling techniques but can be. The areas to be considered in this kind of review include all media (radio, television, videotape, etc.), written and verbal advertising and sales materials.

Standard C-01

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 1.

All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(1), §2304(2), §2304(20).

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with all forms of media (print, radio, television, etc.).

Results: **Pass.**

Observations: Marketing and training materials are submitted electronically to the Marketing Review Unit (MRU) by both the field and the Home Office. An on-line Control Topsheet is filled out with each submission by the submitter. The Topsheet includes such information as the states of distribution, the media that will be employed, whether the material is to be used internally or externally, and who (e.g., Home Office, Agents) will be permitted to distribute the material.

The material is reviewed by the MRU to ensure that it is compliant with regulatory requirements as well as company policy. After the MRU reviews the material, it is electronically returned to the submitter with a control number. When returning the material, the MRU indicates the status of the material, e.g., Approved, Approved with Changes, Revise and resubmit, and rejected. An expiration date for the material is also provided by the MRU. Submitters must provide the MRU with final copies of the material, which is subsequently filed with the appropriate (state and/or NASD) regulatory agencies.

At the end of each quarter, a random sample of marketing material processed for that quarter is selected for review. Material selected for review is not quality reviewed by anyone who originally approved the material. A random sampling of the advertising material was reviewed and appears to be compliant with Delaware statutes and regulations. No exceptions were noted.

Recommendations: None.

Standard C-02

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 2.

Company internal producer training materials are in compliance with applicable statutes, rules and regulations.

18 Del. C. §2304(1); 18 Del. C. §2304(2); 18 Del. C. §2304(20); 18 DE Reg. 1203.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with training or instructional representations made by the Company to its producers.

Results: **Pass.**

Observations: Marketing and training materials are submitted electronically to the Marketing Review Unit by both the field and the Home Office. An on-line Control Topsheet is filled out with each submission by the submitter. The Topsheet includes such information as the states of distribution, the media that will be employed, whether the material is to be used internally or externally, and who (e.g., Home Office, Agents) will be permitted to distribute the material.

The material is reviewed by the MRU to ensure that it is compliant with regulatory requirements as well as company policy. After the MRU reviews the material, it is electronically returned to the submitter with a control number. When returning the material, the MRU indicates the status of the material, e.g., Approved, Approved with Changes, Revise and Resubmit, and Rejected. An expiration date for the material is also provided by the MRU. Submitters must provide the MRU with final copies of the material, which is subsequently filed with the appropriate (state and/or NASD) regulatory agencies.

At the end of each quarter, a random sample of marketing material processed for that quarter is selected for review. Material selected for review is not quality reviewed by anyone who originally approved the material. Training material was reviewed and appears to be compliant with statutes and regulations. No exceptions were noted.

Recommendations: None.

Standard C-03

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 3.

Company communications to producers are in compliance with applicable statutes, rules and regulations.

18 Del. C. §2304(1); 18 Del. C. §2304(2); 18 Del. C. §2304(20); 18 DE Reg. 1203.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with representations made by the Company to its producers in other than a training mode.

Results: **Pass.**

Observations: The Company’s Product marketing area communicates with producers via paper, electronic media and through face to face meetings. The company utilizes Retail Weekly (field management), Field Alert (producers), Prulife Links and Agency Distribution’s Navigator website to communicate with Third Party Distribution brokers via electronic media. Content for these communications are reviewed in accordance with the Company’s Market Review procedures. No exceptions were noted.

Recommendations: None.

Standard C-04

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 4.

Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(1), §2304(20); Del. Reg. 1203; Del. Reg. 1204.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with misrepresentation occurring at replacement.

Results: **Pass.**

Observations: Prudential’s position on Replacement and Financing is sales professionals should not advise, suggest, or recommend that an existing life insurance policy or annuity contract from any company be replaced or the purchase of life insurance or an annuity be financed from another life insurance or annuity contract unless it is in the interest of the customer. The Company has a Replacement Regulation Knowledge Skill Assessment (KSA) which requires a 100% to pass this test along with the training guide is Delaware specific. The company appears to be compliant with Delaware statutes, rules and Regulations. No exceptions were noted.

Recommendations: None.

Standard C-05

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 5.

Company rules pertaining to company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(1), §2304(20); Del. Reg. 1203; Del. Reg. 1204

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with misrepresentation occurring at replacement.

Results: **Pass.**

Observations: See Observations for Standard C-05. No exceptions were noted.

Recommendations: None.

Standard C-06

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 6.

An illustration used in the sale of a policy contains all required information and is delivered in accordance with statutes, rules, and regulations.

18 Del. C. §318(a), §508(b), §2304(1), §2304(20), Del. Reg. 1210.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement.

Results: **Pass.**

Observations: Individual Life Illustrations are addressed within the Company’s Compliance Manual. Group life illustrations are only available to participants of the Company’s Group Variable Universal (GVUL) product. The Group Actuarial Department is responsible for the production of GVUL illustrations and the Group Operations Department is responsible for the distribution of illustrations. Group Life does not maintain any documented procedure regarding the production and distribution of illustrations. However, GVUL illustrations are provided on an as requested basis. These requests are documented by the Group Insurance Call center and are monitored until the request is fulfilled. No exceptions were noted.

Recommendations: None.

Standard C-07

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 7.

Company has suitability standards for its products when required by applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(1), Del. Reg. 1203.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement.

Results: **Pass.**

Observations: The Company discourages unsuitable multiple sales through the use of various suitability related tools cited in the Field Suitability Guide. The guide details the means to determine the appropriate level of coverage for a proposed insured. Additionally, the ESS system is a tool that assists producers and management in determining the amount of insurance necessary to meet the client’s needs. No exceptions were noted.

Recommendations: None.

Standard C-08

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 8.

Pre-need Funeral Contracts or Pre-arrangement disclosures and advertisements are in compliance with statutes, rules, and regulations..

18 Del. C. §318(a), §508(b), §2304(1).

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement.

Results: **Not applicable**

Observations: Not applicable with respect to both individual and group life. This product is not sold by the Company.

Recommendations: None.

Standard C-09

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 9.

Company policy forms provide required disclosure material regarding accelerated benefit provisions.

18 Del. C. §318(a), §508(b), §2304(1).

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation.

Results: **Pass.**

Observations: All Company policy forms provide the required disclosure material regarding accelerated benefit provisions and are compliant with Delaware Statutes, Rules and Regulations. No exceptions were noted.

Recommendations: None.

Standard C-10

NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 10.

Policy application forms used by depository institutions provide required disclosure material regarding insurance sales.

18 Del. C. §318(a), §508(b), §2304(1).

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation.

Results: Pass.

Observations: Policy application forms used by depository institutions provide the required disclosure material regarding insurance sales. No exceptions were noted.

Recommendations: None.

D. PRODUCER LICENSING

Comments: The evaluation of standards in this business area is based on review of DDOI information and Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to test the Company's compliance with Delaware producer licensing laws and rules.

Standard D-01

NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 1.

Company records of licensed and appointed producers agree with Delaware Insurance Department records.

18 Del. C. §318(a), §508(b), §1703 & §1715(a).

Comments: Review methodology for this standard is by "generic" review. This standard has a direct insurance statutory requirement. It is not file specific. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed. Such producers are presumed to be qualified, having met the test for such license.

18 Del. C. §1703 states: "A person shall not sell, solicit or negotiate insurance in this State for any class or classes of insurance unless the person is licensed for that line of authority in accordance with this chapter."

18 Del. C. §1715(a) states: "An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. An insurance producer who is not acting as an agent of an insurer is not required to become appointed."

Results: Pass.

Observations: The Company list of licensed producers was reconciled with the State of Delaware's list and no exceptions were noted

Recommendations: None.

Standard D-02

NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 2.

The producers are properly licensed, and if an agent appointed, for insurance solicited in Delaware.

18 Del. C. §318(a), §508(b), §1703, §1715(a) & §1715(b).

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. As applied in this section, it is not file specific. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed for business solicited in Delaware.

18 Del. C. §1703 states: “A person shall not sell, solicit or negotiate insurance in this State for any class or classes of insurance unless the person is licensed for that line of authority in accordance with this chapter.”

18 Del. C. §1715(a) states: “An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. An insurance producer who is not acting as an agent of an insurer is not required to become appointed.”

18 Del. C. §1715(b) states: “To appoint a producer as its agent, the appointing insurer shall file, in a format approved by the Insurance Commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request. The group appointment provision of this section is only applicable upon implementation by this Department of an electronic appointment process.”

Results: **Pass.**

Observations: All agents are properly Licensed and appointed for insurance solicited in the state of Delaware. No exceptions were noted.

Recommendations: None.

Standard D-03

NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 3.

Termination of producers complies with statutes regarding notification to the producer and notification to the State of Delaware.

18 Del. C. §318(a), §508(b), §529, §1712, & §1716.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. It is generally not file specific. This standard is aimed at avoiding unlicensed placements of insurance.

Results: **Pass.**

Observations: Prudential’s termination of producers complies with statutes regarding notification to the producer and notification to the State of Delaware. No exceptions were noted.

Recommendations: None.

Standard D-04

NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 4.

The company’s policy of producer appointments and terminations do not result in unfair discrimination against policyholders.

18 Del. C. §318(a), §508(b), §2304(13)a, & §2304(22)a.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. It is generally not file specific. This standard is concerned with potential geographical discrimination through the insurer’s selection and instructions to its’ producers. The tests are intended to expose indicators of such practice and may not be conclusive.

Results: **Pass.**

Observations: No unfair discrimination against policyholders due to Company policy of producer appointments or terminations was noted.

Recommendations: None.

Standard D-05

NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 5.

Records of terminated producers adequately document reasons for terminations.

18 Del. C. §318(a), §508(b), & §1716.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. It is generally file specific. This standard is intended to aid in the identification of producers involved in unprofessional behavior which is harmful to the public. 18 Del. C. §1716(a) provides: “Termination for cause. -- An insurer or authorized representative of the insurer that terminates the appointment, employment, contract or other insurance business relationship with a producer shall notify the Insurance Commissioner within 30 days following the effective date of the termination, using a format prescribed by the Insurance Commissioner, if the reason for termination is one of the reasons set forth in § 1712 of this title or the insurer has knowledge the producer was found by a court, government body or self-regulatory organization authorized by law to have engaged in any of the activities in § 1712. Upon the written request of the Insurance Commissioner, the insurer shall provide additional information, documents, records or other data pertaining to the termination or activity of the producer.”

Results: **Pass.**

Observations: No exceptions were noted.

Recommendations: None.

Standard D-06

NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 6.

Producer accounts current (account balances) are in accordance with the producer's contract with the insurer.

18 Del. C. §318(a), §508(b), §1712(a)(4) & §1716.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is to aid in the detection of fraud or misuse of funds held by the producer in a fiduciary capacity. 18 Del. C. §1712(a)(4) states:

“(a) The Insurance Commissioner may place on probation, suspend, revoke or refuse to issue or renew an insurance producer's license or may levy a penalty in accordance with subsection (d) of this section or any combination of actions, for any 1 or more of the following causes:

(4) Improperly withholding, misappropriating or converting any moneys or properties received in the course of doing insurance business.”

Results: **Pass.**

Observations: Prudential's field offices and sales professionals are not permitted to accept cash deposits or payments from clients. No exceptions were noted.

Recommendations: None.

E. POLICYHOLDER SERVICES

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, and presentations made to the examiner and file sampling during the examination process. The policyholder service portion of the examination is designed to test a company's compliance with statutes regarding notice/billing, delays/no response, premium refund and coverage questions.

Standard E-01

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 1.

Premium notices and billing notices are sent out with an adequate amount of advance notice.

18 Del. C. §318(a), §508(b), §3905, §3911.

Comments: Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions.

Results: **Pass.**

Observations: Premium Billing Notices are sent out 28 Days prior to the renewal date and coupon books are also sent 28 days in advance with 12 coupons so the policy owner can make monthly payments when they are due. No exceptions were noted.

Recommendations: None.

Standard E-02

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 2.

Policy issuance and insured-requested cancellations are timely and appropriate.

18 Del. C. §318(a), §508(b), & §2712.,§3915.

Comments: Review methodology for this standard is by “generic” review. This standard does not have a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions.

Results: **Pass.**

Observations: Policy issuance and insured-requested cancellations are timely and appropriate. Policy issuance for renewal business is done at least 30 days prior to renewal. No exceptions were noted.

Recommendations: None.

Standard E-03

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 3.

All correspondence directed to the Company is answered in a timely and responsive manner by the appropriate department.

18 Del. C. §318(a), §508(b), §2304(16)b & §2304(17).

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions.

Results: **Pass.**

Observations: Also see Observations for Procedures P-20. General correspondence has a turn around time of ten business days from the date received by the Company, not the handling unit. E-mail correspondence must be acknowledged within one business day. A random sample of Underwriting Files was selected and reviewed from the listing of Underwriting files during the examination period. Concerns tested with this Standard include:

- Response to correspondence was made by the appropriate department.
- Original question or problem was properly addressed in a timely manner.
- Company responds to inquiries from the applicant regarding the specific reason(s) for adverse underwriting decisions.

Table E3-1

Policyholder Service Sample Results

| Type | Sampled | Pass | Fail | NA | % Pass |
|----------------------|---------|------|------|----|-------------|
| Ind. Life Issued | 50 | 49 | 0 | 1 | 100% |
| Group Life Issued | 50 | 27 | 0 | 23 | 100% |
| Ind. Life Declined | 50 | 50 | 0 | 0 | 100% |
| Ind. Life Terminated | 100 | 99 | 0 | 1 | 100% |
| Totals | 250 | 225 | 0 | 25 | 100% |

No exceptions were noted.

Recommendations: None.

Standard E-04

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 4.

Reinstatement is applied consistently and in accordance with policy provisions.

18 Del. C. §318(a), §508(b), §2304(16)b & §2304(17).

Comments: Review methodology for this standard is by “generic” review.

Results: **Pass.**

Observations: Reinstatement is applied consistently and in accordance with policy provisions. No exceptions were noted.

Recommendations: None.

Standard E-05

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 5.

Policy transactions are processed accurately and completely.

18 Del. C. §2304(16)b; 18 Del. C. §2304(17).

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. It is generally file specific.

Results: **Pass.**

Observations: Policy transactions are processed accurately and completely. Also see Observations for Procedure P-22. A random sample of Underwriting Files was selected and reviewed from the listing of Underwriting files during the examination period. Concerns tested with this Standard include:

- Beneficiary changes are properly documented.
- Policyholder requests are processed as soon as reasonable.

| Type | Table E5-1 Policyholder Service Sample Results | | | | |
|----------------------|--|------|------|-----|--------|
| | Sampled | Pass | Fail | NA | % Pass |
| Ind. Life Issued | 50 | 27 | 0 | 23 | 100% |
| Group Life Issued | 50 | 6 | 0 | 44 | 100% |
| Ind. Life Terminated | 100 | 53 | 0 | 47 | 100% |
| Totals | 200 | 86 | 0 | 114 | 100% |

No exceptions were noted.

Recommendations: None.

Standard E-06

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 6.

Non-forfeiture options are communicated to the policyholder and correctly applied in accordance with the policy contract.

18 Del. C. §318(a), §508(b), §2929.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. It is generally file specific.

Results: **Pass.**

Observations: Also see Observations for Procedures P-20, P-25, P-36 and P-37. A random sample of Underwriting Files was selected and reviewed from the listing of Underwriting files during the examination period.

Table E6-1

Policyholder Service Sample Results

| Type | Sampled | Pass | Fail | NA | % Pass |
|--------------------|---------|------|------|----|-------------|
| Ind. Life Issued | 51 | 51 | 0 | 0 | 100% |
| Ind. Life Inforce | 50 | 50 | 0 | 0 | 100% |
| Group Life Inforce | 50 | 50 | 0 | 0 | 100% |
| Totals | 151 | 151 | 0 | 0 | 100% |

No exceptions were noted.

Recommendations: None.

Standard E-07

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 7.

Reasonable attempts to locate missing policyholders or beneficiaries are made.

18 Del. C. §318(a), §508(b), §2914.

Comments: Review methodology for this standard is by “generic” review.

Results: **Pass.**

Observations: Prudential has an extensive program to locate missing policyholders or beneficiaries. No exceptions were noted.

Recommendations: None.

Standard E-08

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 8.

The company provides each policy owner with an annual report of policy values in accordance with statutes, rules, and regulations and, upon request, an in-force illustration or contract policy summary.

18 Del. C. §318(a), §508(b), §2304(1), Del. Reg. 1210.

Comments: Review methodology for this standard is by “generic” and “sample” review

Results: **Pass.**

Observations: Prudential provides each policy owner with an annual report of policy values in accordance with statutes, rules, and regulations and, upon request. Also see Observations for Procedures P-20 and P-25. A random sample of files was reviewed from the areas noted below for the examination period.

Table E8-1

Policyholder Service Sample Results

| Type | Sampled | Pass | Fail | NA | % Pass |
|------------------|---------|------|------|----|-------------|
| Ind. Life Issued | 50 | 49 | 0 | 1 | 100% |

No exceptions were noted.

Recommendations: None.

Standard E-09

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 9.

Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b).

Comments: Review methodology for this standard is by “generic” review

Results: **Pass.**

Observations: Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations. No exceptions were noted.

Recommendations: None.

Standard E-10

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 10.

Whenever the company transfers the obligation of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained prior approval of the insurance department and the company has sent the required notices to its’ affected policyholders.

18 Del. C. §318(a), §508(b), §2304(1).

Comments: Review methodology for this standard is by “generic” review.

Results: **Pass.**

Observations: During the examination period Prudential did not transfer any obligations of any domestic individual or group life contracts to another company. No exceptions were noted.

Recommendations: None.

Standard E-11

NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 11.

Upon receipt of a request from policyholder for accelerated benefit payment, the company must disclose to policyholder the effect of the request on the policy's cash value, accumulation account, death benefit, premium, policy loans and liens. Company must also advise that the request may adversely affect the recipient's eligibility for Medicaid or other government benefits or entitlements.

18 Del. C. §318(a), §508(b), §2304(1).

Comments: Review methodology for this standard is by “generic” review.

Results: **Pass.**

Observations: All disclosures are made to the policyholder upon request for accelerated benefits. No exceptions were noted.

Recommendations: None.

F. UNDERWRITING AND RATING

Comments: The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, presentations made to the examiner, and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the company treats the public and whether that treatment is in compliance with applicable statutes, rules and regulations. It is typically determined by testing a random sampling of files and applying various tests to the sampled files. It is concerned with compliance issues.

Standard F-01

NAIC Market Conduct Examiners Handbook - Chapter XV, F, Standard 1.

The rates charged for the policy coverage are in accordance with filed rates.

18 Del. C. §318(a), §508(b), & §2517.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. It is file specific. It is necessary to determine if the company is in compliance with rating systems which have been filed with and approved by DDOI. Rates should not be unfairly discriminatory. Wide-scale application of incorrect rates by a Company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a company is engaged in unfair competitive practices.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts in force during the examination period. Concerns tested with this standard include:

- Correct use of classification and other rating factors;
- Rating information that comports with information in the application;
- Appropriate use of manual rules;
- Appropriate basis of premium;
- Correct implementation date for rates.

| Table F1-1 | | Underwriting Sample Results | | | |
|-------------------------|----------------|------------------------------------|-------------|-----------|---------------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Individ. Life Issued DE | 50 | 49 | 0 | 1 | 100% |

Recommendations: None

Standard F-02

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 2.

All mandated disclosures for individual insurance are documented and in accordance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(1)a , §2517, §2719, & §3532.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Quotations are documented, accurate and timely as supported by data in underwriting file.
- Changes in coverage are disclosed timely.
- Changes in renewal rates are disclosed timely.
- All mandated offers of coverage have been disclosed.

| Table F2-1 | | Underwriting Sample Results | | | |
|-----------------------|----------------|------------------------------------|-------------|-----------|---------------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Indiv. Life Issued DE | 50 | 49 | 0 | 1 | 100% |

Recommendations: None

Standard F-03

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 3.

All mandated disclosures for group insurance are documented and in accordance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(1)a , §2517, §2719, & §3532.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Quotations are documented, accurate and timely as supported by data in underwriting file.
- Changes in coverage are disclosed timely.
- Changes in renewal rates are disclosed timely.
- All mandated offers of coverage have been disclosed.

Table F3-1

Underwriting Sample Results

| Type | Sampled | Pass | Fail | NA | % Pass |
|-------------------|---------|------|------|----|-------------|
| Group Life Issued | 50 | 27 | 0 | 23 | 100% |

Recommendations: None

Standard F-04

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 4.

All mandated disclosures for credit insurance are documented and in accordance with applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(1)a , §2517, §2719, & §3532.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions.

Results: **N/A**

Observations: The Company does not write this product.

Recommendations: None

Standard F-05

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 5.

Company does not permit illegal rebating, commission cutting or inducements.
18 Del. C. §318(a), §508(b), & §2304(14).

Comments: : Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. It is generally file specific. Illegal rebating, commission cutting or other illegal inducements are a form of unfair discrimination.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Quotations are documented, accurate and timely as supported by data in underwriting file.
- Changes in coverage are disclosed timely.
- Changes in renewal rates are disclosed timely.
- All mandated offers of coverage have been disclosed.

| Table F5-1 | Underwriting Sample Results | | | | |
|--------------------|------------------------------------|-------------|-------------|-----------|---------------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Indiv. Life Issued | 50 | 49 | 0 | 1 | 100% |
| Group Life Issued | 50 | 27 | 0 | 23 | 100% |
| Totals | 100 | 76 | 0 | 24 | 100% |

Recommendations: None

Standard F-06

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 6.

All forms including contracts, riders, endorsement forms and certificates, are filed with the Department of Insurance.
18 Del. C. §318(a), §508(b), & §2304(14).

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement.

Results: **Pass**

Observations: A random sample of files was reviewed during this examination. Concerns tested with this Standard were also tested by a review of the related Company policies and procedures. These subjects include:

- Underwriting file contains complete and signed application.
- All forms and endorsements that form part of the contract are listed on the declarations page.

| Table F6-1 | | | Underwriting Sample Results | | |
|--------------------|---------|------|-----------------------------|----|--------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Indiv. Life Issued | 50 | 49 | 0 | 1 | 100% |

Recommendations: None

Standard F-07

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 7.

The Company underwriting practices are not unfairly discriminatory. The Company adheres to applicable statutes, rules and regulations and Company guidelines in the selection of risks.

18 Del. C. §318(a), §508(b), §2304(14), §2504(a), §2509, §2609, & §2615

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate protections from unfair discrimination. Inconsistent handling of rating or underwriting practices, including requests for supplemental information, even if not intended, can result in unfair discrimination.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Underwriting decisions supported by data in underwriting file.
- Consistent application of underwriting criteria.
- Company is following its underwriting guidelines.

| Table F7-1 | | | Underwriting Sample Results | | |
|------------------------|---------|------|-----------------------------|----|--------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Indiv. Life Issued | 50 | 49 | 0 | 1 | 100% |
| Group Life Issued | 50 | 27 | 0 | 23 | 100% |
| Indiv. Life Terminated | 100 | 99 | 0 | 1 | 100% |
| Totals | 200 | 175 | 0 | 25 | 100% |

Recommendations: None

Standard F-08

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 8.

Producers taking an application on Delaware business are properly licensed and appointed.

18 Del. C. §318(a), §508(b), §1713, & §1714.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement.

Results: Pass

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Producer was licensed and appointed by the Company at the time of application.

| Type | Sampled | Pass | Fail | NA | % Pass |
|----------------------|----------------|-------------|-------------|-----------|---------------|
| Indiv. Life Issued | 50 | 49 | 0 | 1 | 100% |
| Indiv. Life Declined | 50 | 50 | 0 | 0 | 100% |
| Totals | 100 | 99 | 0 | 1 | 100% |

Also see Standard E-1.

Recommendations: None

Standard F-09

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 9.

Contracts and endorsements are issued or renewed accurately, timely and completely.
18 Del. C. §318(a); §508; §2304(7)a

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard does not have a direct insurance statutory requirement.

Results: Pass

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Policies and endorsements are issued in appropriate time frames.
- Policies are issued within a reasonable time following completion of the application.

| Type | Sampled | Pass | Fail | NA | % Pass |
|----------------------|----------------|-------------|-------------|-----------|---------------|
| Indiv. Life Issued | 50 | 49 | 0 | 1 | 100% |
| Group Life Issued | 50 | 27 | 0 | 23 | 100% |
| Indiv. Life Declined | 50 | 50 | 0 | 0 | 100% |
| Totals | 150 | 126 | 0 | 24 | 100% |

Recommendations: None

Standard F-10

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 10.

Rejections and declinations are not unfairly discriminatory.

18 Del. C. §318(a), §508(b), §2304(25)a, & §2316.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. Consistent application of a company’s underwriting rules is the primary method used to avoid unfair discrimination.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Rejections and declinations are not unfairly discriminatory.
- Valid reasons for rejection or declination are provided.

| Table F10-1 | | | Underwriting Sample Results | | |
|-----------------------|---------|------|-----------------------------|----|-------------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Indiv. Life Declined | 50 | 50 | 0 | 0 | 100% |
| Indiv Life Terminated | 100 | 99 | 0 | 1 | 100% |
| Totals | 150 | 149 | 0 | 1 | 100% |

Recommendations: None

Standard F-11

NAIC Market Conduct Examiners Handbook - Chap XV, §F, Standard 11.

Cancellation/non-renewal notices and practices comply with policy provisions, statutes, and Company guidelines.

18 Del. C. §318(a), §508(b), §2304(24), §3326, §3562, & §3608.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. Cancellation/non-renewal notice timeframe requirements arose out of abuses that still exist. Policyholders need sufficient time in the event of a cancellation or non-renewal to replace coverage.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Reason for cancellation/non-renewal was valid according to policy provisions and statute.
- Notice of cancellation includes the specific reason for cancellation where required.

| Table F11-1 | | | Underwriting Sample Results | | |
|-----------------------|---------|------|-----------------------------|----|--------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Indiv Life Terminated | 100 | 99 | 0 | 1 | 100% |

Recommendations: None

Standard F-12

| |
|--|
| <i>NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 12.</i> |
| Rescissions are not made for non-material misrepresentation. |
| 18 Del. C. §318(a), §508(b), & §2711. |

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard does not have a direct insurance statutory requirement. It is file specific. Rescissions generally occur after a claim has been filed. A large number of rescissions can reflect inadequate underwriting efforts. When a rescission is made it should not be for trivial or non-material reasons.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts rescinded during the examination period. Concerns tested with this Standard include:

- Quality of underwriting.
- That rescissions do not occur for trivial or non material reasons.

| Table F12-1 | | | Underwriting Sample Results | | |
|-----------------|---------|------|-----------------------------|----|--------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Grp Rescissions | 12 | 12 | 0 | 0 | 100% |

Recommendations: None

Standard F-13

| |
|--|
| <i>NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 13.</i> |
| Pertinent information on applications that form a part of the policy are complete and accurate. |
| 18 Del. C. §318(a), §508(b), & §2304(7)a. |

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard does not have a direct insurance statutory requirement.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Policies are issued as applied for.
- Application information is accurate and verified.

| Type | Sampled | Pass | Fail | NA | % Pass |
|---------------------|---------|------|------|----|--------|
| Indiv Life Issued | 50 | 49 | 0 | 1 | 100% |
| Indiv Life Declined | 50 | 50 | 0 | 0 | 100% |
| Totals | 100 | 99 | 0 | 1 | 100% |

Recommendations: None

Standard F-14

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 14.

The company complies with the specific requirements for AIDS-related concerns in accordance with statutes, rules, and regulations.

18 Del. C. §318(a), §508(b), & §2304(14), §2304(15), Del. Reg. 1209.

Comments: Review methodology for this standard is by “generic” and “sample” review.

Results: **Pass.**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Discrimination resulting from AIDS related issues and sexual orientation issues.

| Type | Sampled | Pass | Fail | NA | % Pass |
|-------------------|---------|------|------|----|--------|
| Ind. Life Issued | 50 | 47 | 0 | 3 | 100% |
| Group Life Issued | 50 | 27 | 0 | 23 | 100% |
| Ind. Terminated | 100 | 98 | 0 | 2 | % |
| Totals | 200 | 172 | 0 | 28 | % |

Recommendations: None

Standard F-15

NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 15.

File documentation adequately supports decisions made.

18 Del. C. §318(a), §508(b), & §2304(1).

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard does not have a direct insurance statutory requirement. When underwriting is done with less than the required information, the likelihood of unfair discrimination increases.

Results: **Pass**

Observations: A random sample of files as noted in the following table was reviewed from the listing of contracts issued during the examination period. Concerns tested with this Standard include:

- Underwriting file contains complete and signed application.
- Application contains sufficient information to identify exposure.

| Type | Sampled | Pass | Fail | NA | % Pass |
|-----------------------|---------|------|------|----|-------------|
| Indiv Life Issued | 50 | 49 | 0 | 1 | 100% |
| Grp Life Issued | 50 | 27 | 0 | 23 | 100% |
| Indiv Life Declined | 50 | 50 | 0 | 0 | 100% |
| Indiv Life Terminated | 100 | 99 | 0 | 1 | 100% |
| Totals | 250 | 225 | 0 | 25 | 100% |

Recommendations: None

G. CLAIMS PRACTICES

Comments: The evaluation of standards in this business area is based on Company responses to information items requested by the examiner, discussions with Company staff, electronic testing of claim databases, and file sampling during the examination process. This portion of the examination is designed to provide a view of how the company treats claimants and whether that treatment is in compliance with applicable statutes, rules and regulations.

Standard G-01

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 1
The initial contact by the Company with the claimant is within the required time frame.
 18 Del. C. §318(a), §508(b), §2304(16)b & DE Reg. 902§1.2.1.2

Comments: Review methodology for this standard is by “generic”, “sample” and “electronic” review. This standard derives directly from 18 Del. C. §2304(16)b which prohibits the "failing to acknowledge and act reasonably promptly upon communication with respect to claims arising under insurance policies." Delaware requires responses to claim communications within 15 working days of receipt of the communication.

Results: **Pass**

Observation: A random sample of files as noted in the following table was reviewed from the listing of those types of claims made during the examination period. Concerns tested with this Standard include:

- That initial contact with claimants meets required contact standards.

| Type | Sampled | Pass | Fail | NA | % Pass |
|------------------------|----------------|-------------|-------------|-----------|---------------|
| Individual Claims Paid | 50 | 50 | 0 | 0 | 100% |
| Group Claims Paid | 50 | 34 | 0 | 16 | 100% |
| Totals | 100 | 84 | 0 | 16 | 100% |

Recommendations: None

Standard G-02

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 2.

Timely investigations are conducted.

18 Del. C. §318(a), §508(b), §2304(16)c & DE Reg. 902§1.2.1.3.

Comments: Review methodology for this standard is by “generic”, “sample” and “electronic” review. This standard has a direct insurance statutory requirement. Delaware requires claim investigation within 10 working days of receipt of the notice of loss by the insurer.

Results: **Pass**

Observation: Random samples of Closed Paid Claims were selected and reviewed from the listings of those types of claims made during the examination period. Concerns tested with this Standard include:

- That initial contact with claimants meets required contact standards.
- That subsequent responses and claim handling delay notices comply with applicable statutes, rules and regulations.

| Type | Sampled | Pass | Fail | NA | % Pass |
|-------------------------|----------------|-------------|-------------|-----------|---------------|
| Indiv. Life Claims Paid | 50 | 50 | 0 | 0 | 100% |
| Group Claims Paid | 50 | 34 | 0 | 16 | 100% |
| Totals | 100 | 84 | 0 | 16 | 100% |

Recommendations: None

Standard G-03

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 3.

Claims are resolved in a timely manner.

18 Del. C. §318(a), §508(b), §2304(16)e & DE Reg. 902§1.2.1.5.

Comments: Review methodology for this standard is by “generic”, “sample” and “electronic” review. This standard has a direct insurance statutory requirement. Failure to resolve claims timely can invite “bad faith” actions. In a Company setting, failure to resolve claims timely can result in a migration of providers from the network with resultant disruption of service to members. Del. Reg. 26 §(1)(e) requires claim resolution or written explanation within 30 day of receipt of claim.

Results: Pass

Observation: Random samples of Closed Paid Claims were selected and reviewed from the listings of those types of claims made during the examination period. Concerns tested with this Standard include:

- That claim resolutions, i.e., liability, determinations, coverage questions and claim payment are made in accordance with Delaware claim requirements.
- That claim handling delay notices comply with applicable statutes, rules and regulations.

| Table G3-1 | | | Claims Sample Results | | |
|-------------------------|---------|------|-----------------------|----|-------------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Indiv. Life Claims Paid | 50 | 50 | 0 | 0 | 100% |
| Group Claims Paid | 50 | 34 | 0 | 16 | 100% |
| Totals | 100 | 84 | 0 | 16 | 100% |

Recommendations: None

Standard G-04

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 4.
The Company responds to claim correspondence in a timely manner.
 18 Del. C. §318(a), §508(b), §2304(16)b & DE Reg. 902§1.2.1.2.

Comments: Review methodology for this standard is by “generic”, “sample” and “electronic” review. This standard has a direct insurance statutory requirement. Delaware requires response to claim communications within 15 working days of receipt of the communication.

Results: Pass

Observation: Random samples of Closed Paid Claims were selected and reviewed from the listings of those types of claims made during the examination period. Concerns tested with this Standard include:

- That correspondence related to claims is responded to in accordance with Delaware requirements.

Correspondence was noted in only 1 file of the 100 sampled and it was appropriately handled.

Recommendations: None

Standard G-05

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 5
Claim files are adequately documented.
 18 Del. C. §318(a), §320(c), §508(b), §2304(16) & DE Reg. 902§1.2.1.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. Without adequate documentation, the various time frames in statute and/or regulation can not be demonstrated.

Results: Pass

Observation: Random samples of Closed Paid Claims and Closed Without Payment Claims were selected and reviewed from the listings of those types of claims made during the examination period. Concerns tested with this Standard include:

- That the quality of the claim documentation meets Delaware requirements.
- That claim files documentation is sufficient to support or justify the ultimate claim determination.

| Type | Sampled | Pass | Fail | NA | % Pass |
|-------------------------|----------------|-------------|-------------|-----------|---------------|
| Ind. Life Claims Paid | 50 | 50 | 0 | 0 | 100% |
| Group Claims Paid | 50 | 34 | 0 | 16 | 100% |
| Ind. Life Claims Not Pd | 6 | 6 | 0 | 0 | 100% |
| Grp. Life Claims Not Pd | 18 | 18 | 0 | 0 | 100% |
| Totals | 124 | 108 | 0 | 16 | 100% |

Recommendations: None

Standard G-06

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 6.

Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.

18 Del. C. §318(a), §508(b), §2304(16)a. §3914 & DE Reg. 902§1.2.1.1.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement.

Results: Pass

Observation: Random samples of Closed Paid Claims were selected and reviewed from the listings of those types of claims made during the examination period. Concerns tested with this Standard include:

- That claim handling meets Delaware statutes and regulations.
- That coverage was checked for proper application of deductible or appropriate exclusionary language.

| Type | Sampled | Pass | Fail | NA | % Pass |
|-------------------------|----------------|-------------|-------------|-----------|---------------|
| Indiv. Life Claims Paid | 50 | 50 | 0 | 0 | 100% |
| Group Claims Paid | 50 | 34 | 0 | 16 | 100% |
| Totals | 100 | 84 | 0 | 16 | 100% |

Recommendations: None

Standard G-07

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 7.

The Company claim forms are appropriate for the type of product.
 18 Del. C. §318(a), §508(b), §2304(16)d, §2304(16)n, & DE Reg. 902§1.2.1.11.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement.

Results: **Pass**

Observation: A random sample of Closed Paid Claims was selected and reviewed from the listing of Claims made during the examination period. Concerns tested with this Standard include:

- That the use of inappropriate forms does not occur.

| Table G7-1 | | | Claims Sample Results | | |
|-------------------------|----------------|-------------|------------------------------|-----------|---------------|
| Type | Sampled | Pass | Fail | NA | % Pass |
| Indiv. Life Claims Paid | 50 | 50 | 0 | 0 | 100% |

Recommendations: None

Standard G-08

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 8.

Claim files are reserved in accordance with the Company’s established procedures.
 18 Del. C. §318(a), §508(b), & §1103

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement. Loss reserves must be applied in a consistent manner to avoid distortions in the Company’s financial statements and in the development of its rate structures.

Results: **Pass**

Observation: Random samples of Closed Paid Claims were selected and reviewed from the listings of of claims made during the examination period. Concerns tested with this Standard include:

- That individual reserves are evaluated and posted.
- That reserve adjustments are made when appropriate.
- That reserves are not excessive or inadequate.
- That reserves are adjusted if a redundancy is apparent.

Table G8-1

Claims Sample Results

| Type | Sampled | Pass | Fail | NA | % Pass |
|-------------------------|---------|------|------|----|-------------|
| Indiv. Life Claims Paid | 50 | 50 | 0 | 0 | 100% |
| Group Claims Paid | 50 | 34 | 0 | 16 | 100% |
| Totals | 100 | 84 | 0 | 16 | 100% |

Recommendations: None

Standard G-09

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 9.

Denied and closed-without-payment claims are handled in accordance with policy provisions, HIPAA where applicable and Delaware law.

18 Del. C. §318(a), §508(b), §2304(16)d, §2304(16)n & DE Reg. 902§1.2.1.4, DE Reg. 902§1.2.1.13.

Comments: Review methodology for this standard is by “generic”, “sample” and “electronic” review. This standard has a direct insurance statutory requirement.

Results: **Pass**

Observation: A random sample of Closed Without Payment Claims was selected and reviewed from the listings of Claims made during the examination period. Concerns tested with this Standard include:

- That denied and closed-without-payment claims are based on policy provisions and applicable Delaware statutes and regulations.
- That notices of claim denials reference specific policy provisions or exclusions.
- That claimants are provided with a reasonable basis for the denial when required by statute or regulation.

Table G9-1

Claims Sample Results

| Type | Sampled | Pass | Fail | NA | % Pass |
|--------------------------|---------|------|------|----|-------------|
| Grp. Life Claims Not Pd. | 18 | 17 | 0 | 1 | 100% |

Recommendations: None

Standard G-10

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 10.

Cancelled benefit checks reflect appropriate claim handling practices.

18 Del. C. §318(a), §508(b), §2304(16), & DE Reg. 902§1.2.1.

Comments: Review methodology for this standard is by “generic”, “sample” and “electronic” review.

Results: **Pass**

Observation: Concerns tested with this Standard include:

- That cancelled checks include the correct payee and are for the correct amount.

**THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
PRUCO LIFE INSURANCE COMPANY**

- That payment checks do not indicate the payment is “final” when such is not the case.
- That checks or drafts do not purport to release the insurer from total liability when such is not the case.

| Type | Sampled | Pass | Fail | NA | % Pass |
|-------------------------|----------------|-------------|-------------|-----------|---------------|
| Indiv. Life Claims Paid | 50 | 50 | 0 | 0 | 100% |
| Group Claims Paid | 50 | 34 | 0 | 16 | 100% |
| Totals | 100 | 84 | 0 | 16 | 100% |

Recommendations: None

Standard G-11

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 11.

Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

18 Del. C. §318(a), §508(b), §520(b)2, §2304(16)g, & DE Reg. 902§1.2.1.7.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement.

Results: **Pass**

Observation: There was no sample of litigated claims from which to select files. Random samples of Paid Claims were selected and reviewed from the listings of those types of claims made during the examination period. Concerns tested with this Standard include:

- That the Company processes and handles the claim that does not compel the claimant to institute a lawsuit to effect an appropriate settlement of the claim.

| Type | Sampled | Pass | Fail | NA | % Pass |
|-------------------------|----------------|-------------|-------------|-----------|---------------|
| Indiv. Life Claims Paid | 50 | 50 | 0 | 0 | 100% |
| Group Claims Paid | 50 | 34 | 0 | 16 | 100% |
| Totals | 100 | 84 | 0 | 16 | 100% |

Recommendations: None

Standard G-12

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 12.

Company provides the required disclosure material to policyholders at the time an accelerated benefit payment is requested.

18 Del. C. §318(a), §508(b), §2304(1), & DE. Reg 1210.

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement.

Results: **Pass**

Observation: Concerns tested with this Standard include:

- That disclosures made for accelerated benefits are properly made.

None of the files reviewed contained conditions to which this Standard applies.

Recommendations: None

Standard G-13

NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 13.

The company does not discriminate among insured with differing qualifying events covered under the policy or among insured with similar qualifying events covered under the policy.

18 Del. C. §318(a), §508(b), §2304(1), §2304(13), §2304(15).

Comments: Review methodology for this standard is by “generic” and “sample” review. This standard has a direct insurance statutory requirement.

Results: **Pass**

Observation: Concerns tested with this Standard include:

- That only conditions indicated in the contract are applied to accelerated benefits.

None of the files reviewed contained conditions to which this Standard applies.

Recommendations: None

SUMMARY

The Prudential Insurance Company of America and PRUCO Life Insurance Company are part of the Prudential Group. They are life insurers writing a major market share of life insurance in the State of Delaware.

The examination was a part of a series of examinations of the major writers of life insurance in the State of Delaware. Business areas reviewed and tested include: Company Operations /Management; Complaint Handling; Marketing/Sales; Policyholder Service, Underwriting and Claims.

There were no significant issues arising during the course of the examination however some issues were noted that the Company should consider for improvement.

The Company’s ability to retrieve data from its various systems when responding to the sampling requirements of a market conduct examination is slow. However a recommendation has not been made to address this issue as there is some doubt that it would have functional application

**THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
PRUCO LIFE INSURANCE COMPANY**

to the Company's day to day operations. It does impact the cost of examinations through greater durations than might otherwise be desirable but has little impact on its address of compliance issues.

It is noted that the rates of error were very low and the management structure is effective in anticipating and preventing problems that result in regulatory interest. Two areas of concern where the Company should consider improvement are the absence of a formal structure for formal training of its agents and the completeness of its address of complaints received. A recommendation has been made to address the area of concern in the complaint review that is summarized in the following section.

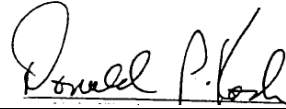
LIST OF RECOMMENDATIONS

Recommendation B-03 - Complaint Disposition

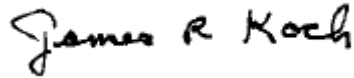
It is recommended that the Company take adequate steps to see that all issues arising in a complaint are fully addressed.

CONCLUSION

The examination was conducted by Supervising Examiner, Donald P. Koch; Examiner in Charge, James R. Koch; Examiner James McLaughlin; and Examiner, Brian Tinsley and is respectfully submitted,



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Supervising Market Conduct Examiner
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